

Build-Out Obligation Methodology for Rate-of-Return Carriers Electing Model-Based Support



The voice of mid-size communications companies

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RATIONALE FOR THE METHODOLOGY

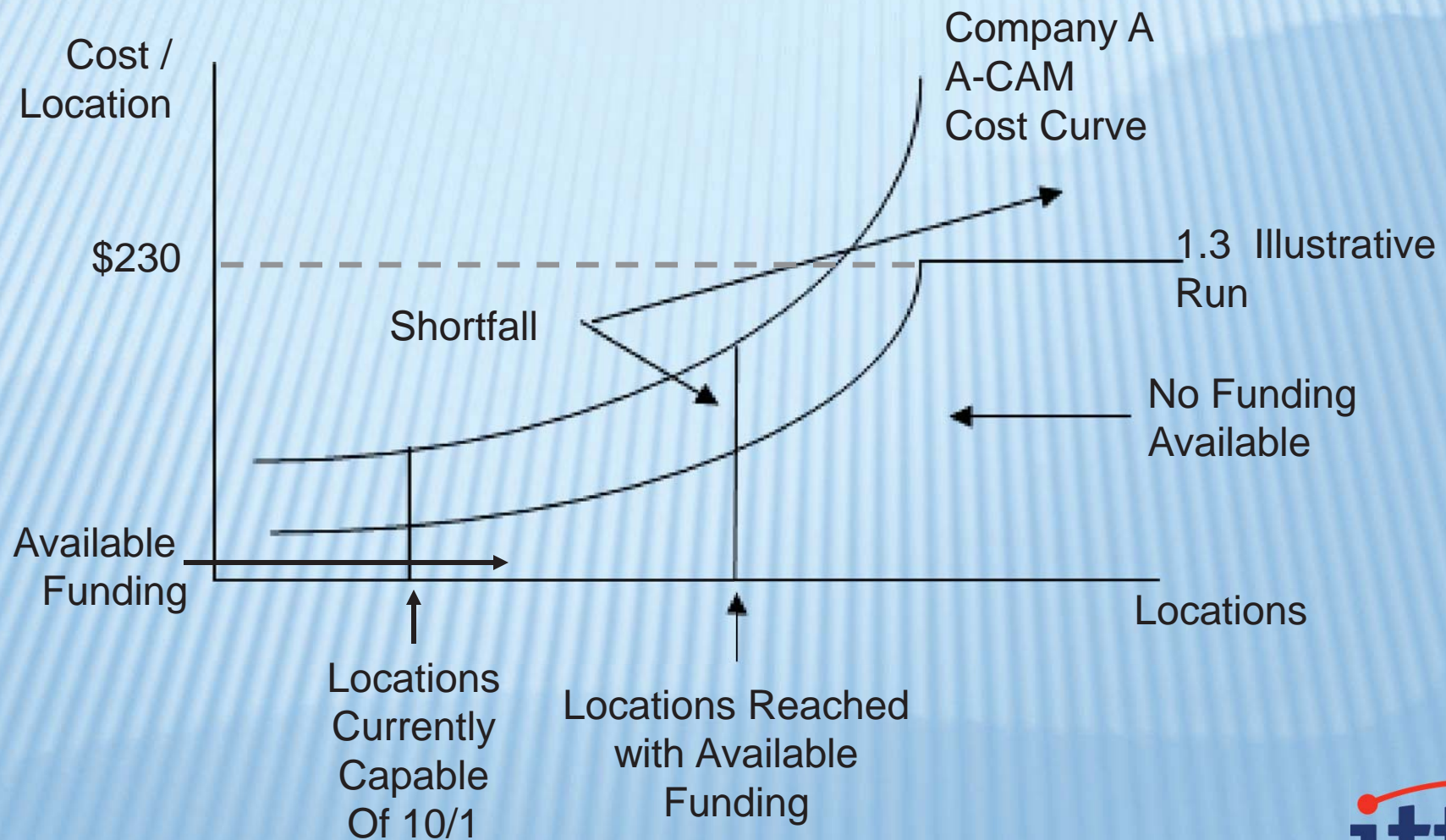
- **Funding is directed to unserved areas.**
- **Limited funding will likely result in build-out obligations of less than 100%.**
- **Diversity requires carrier specific build-out obligations.**
 - **Location costs vary greatly based on density and other factors.**
 - **Current broadband deployment varies by company.**
 - **The proportion of locations where support is limited to \$230 varies by carrier.**
- **A-CAM provides data necessary to determine build-out obligations. A company's build-out obligation is based on its available funding, costs and current locations reached.**

DIFFERENCES NECESSITATE DIFFERENT POLICIES

| Policy Difference | Price Cap Areas | Rate-of-Return Areas* |
|---|--|--|
| Cost Differences | Larger numbers of PC locations are relatively low cost. | More RoR areas are higher cost and thus require a unique build-out approach. |
| Existing Build-out Levels | Most high-cost areas are unserved. | Many high-cost areas are already served. |
| Different Outcomes for Highest-Cost Areas | Locations above PC extremely high cost threshold subject to RAF. | Locations above \$230 subject to reasonable request. |
| Deciding Factors for Electing Model Support | If refused, model support will be auctioned. | Model support entirely optional. |

* These statements are based on our assessment of the approach the Commission may adopt including FCC Illustrative Scenario 1.3.

SIMPLIFIED OVERVIEW OF THE METHODOLOGY



CALCULATION OF BUILD-OUT OBLIGATION

- Determine CAF reserves available for each company.
- Sort each company's census blocks in order of increasing A-CAM costs.
- Count eligible locations with costs above \$52.50.
- Beginning with the lowest cost census block, sum the capital cost and the locations for each block until all available funding has been used.

$$\begin{aligned} \text{Support Used in Census Block}_i &= \text{Capital Expenditure Cost}_i \\ &= 0.433 \times \text{Number of Locations}_i \times (\text{Cost per Location}_i - \$52.50) \end{aligned}$$

- Multiply the resulting eligible locations by 95%.
 - Companies don't deploy by census block therefore they may not deploy to the lowest cost census block first.
 - Legitimate cost differences exist between model and actual costs.

CALCULATION FOR ILLUSTRATIVE STUDY AREA D

| CB | Telco Served | Cable Served | Fixed Wireless Served | Total Active Subscribers | Cost Per Active Sub | Unserved Locations | CapEx Cost of Build-out to Unserved Locations | Cummulative CapEx Cost of Build-out to Unserved Locations | Cummulative Count of Eligible Locations |
|---------------|--------------|--------------|-----------------------|--------------------------|---------------------|--------------------|---|---|---|
| | | | | | | over 52.50 | | | |
| 1234567891234 | Served | Served | Unserved | 18 | \$ 50 | 0 | \$ - | \$ - | 0 |
| 1234567891255 | Unserved | Unserved | Unserved | 2 | \$ 55 | 2 | \$ 2.17 | \$ 2.17 | 2 |
| 1234567891276 | Served | Unserved | Unserved | 8 | \$ 55 | 0 | \$ - | \$ 2.17 | 2 |
| 1234567891297 | Unserved | Served | Unserved | 2 | \$ 55 | 0 | \$ - | \$ 2.17 | 2 |
| 1234567891318 | Served | Unserved | Unserved | 5 | \$ 55 | 0 | \$ - | \$ 2.17 | 2 |
| 1234567891339 | Served | Served | Unserved | 6 | \$ 55 | 0 | \$ - | \$ 2.17 | 2 |
| 1234567891360 | Served | Served | Unserved | 1 | \$ 55 | 0 | \$ - | \$ 2.17 | 2 |
| 1234567891381 | Served | Served | Unserved | 7 | \$ 55 | 0 | \$ - | \$ 2.17 | 2 |
| 1234567891402 | Served | Unserved | Unserved | 16 | \$ 60 | 0 | \$ - | \$ 2.17 | 2 |
| 1234567891423 | Unserved | Unserved | Unserved | 5 | \$ 60 | 5 | \$ 16.24 | \$ 18.40 | 7 |
| 1234567891444 | Unserved | Unserved | Unserved | 22 | \$ 60 | 22 | \$ 71.45 | \$ 89.85 | 29 |
| 1234567891465 | Served | Served | Unserved | 7 | \$ 60 | 0 | \$ - | \$ 89.85 | 29 |
| | | | | ... | ... | ... | ... | ... | ... |
| 1234567891466 | Unserved | Unserved | Unserved | 1 | \$ 85 | 1 | \$ 14.07 | \$ 1,909.53 | 222 |

$$222 \times 0.95 = 211$$

ILLUSTRATIVE COMPANY RESULTS

| Study Area | Total Locations | Locations in Census Blocks Receiving Model-Based Funding | Locations in Census Blocks Lacking 10/1 | Current Build-out of Eligible Locations | Current Build-out of Total Locations | Annual Share of CAF Reserve | Add'l Locations to Build-out with CAF Reserve x 95% | Final Locations Capable of 10/1 | Final Build-out of Eligible Locations | Final Build-out of Total Locations |
|------------|-----------------|--|---|---|--------------------------------------|-----------------------------|---|---------------------------------|---------------------------------------|------------------------------------|
| A | 430 | 365 | 365 | 0% | 15% | \$ 116,982 | 163 | 163 | 45% | 53% |
| B | 6,543 | 4,758 | 4,624 | 3% | 29% | \$ 567,840 | 2,656 | 2,790 | 59% | 70% |
| C | 38,566 | 16,316 | 15,095 | 7% | 61% | \$ 5,050,141 | 7,439 | 8,660 | 53% | 80% |
| D | 1,585 | 656 | 292 | 55% | 82% | \$ 55,126 | 211 | 575 | 88% | 95% |

CONCLUSION

- Differences between rate-of-return and price-cap areas and policies require a different approach.
- The proposed methodology matches the obligation to the factors that impact rate-of-return deployment:
 - The cost to serve various locations;
 - The available CAF funding; and
 - The current level of 10/1 deployment.